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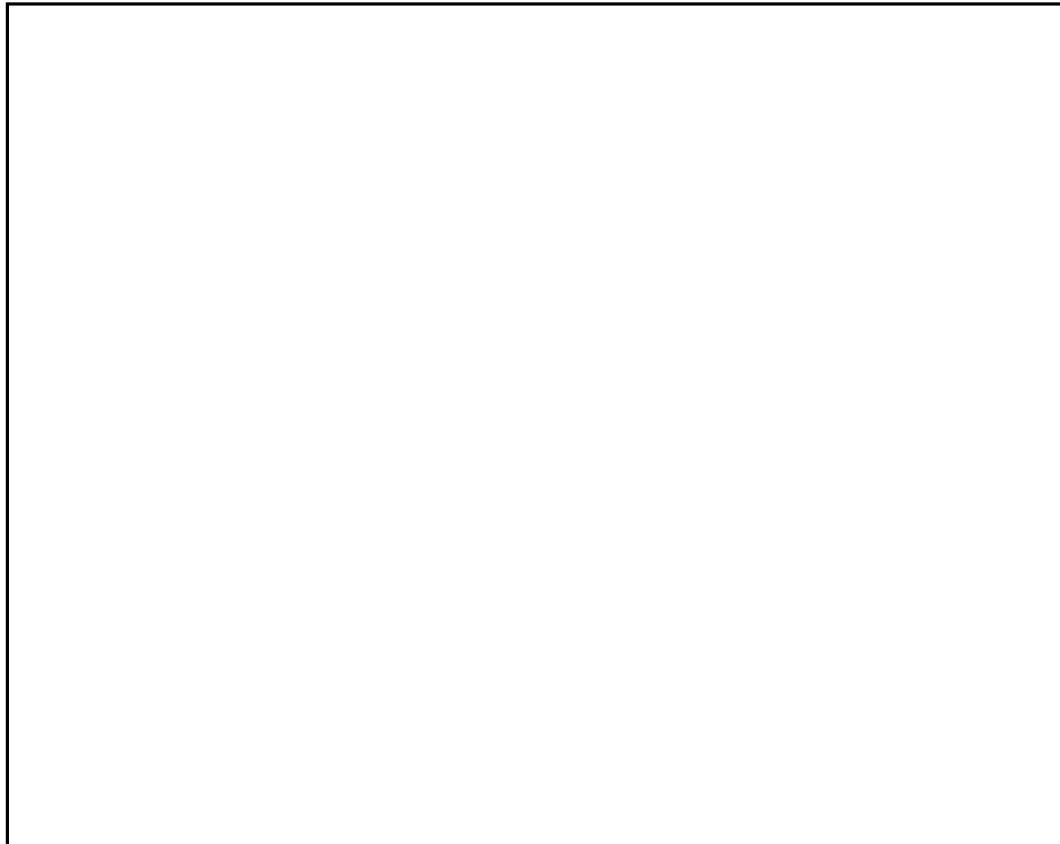
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1. ZHUKOV REPLACED AS SOVIET DEFENSE MINISTER

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There has been no official statement from the Soviet Union on the replacement of Marshal Georgy Zhukov by Marshal Rodion Malinovsky as USSR minister of defense other than the 26 October radio announcement of the shift late Saturday evening, Moscow time, followed by a brief item published on the back page of Pravda on Sunday morning. Whether Zhukov has been demoted or whether he relinquished the defense post in order to assume broader political responsibilities is not yet clear. The longer the delay in clarifying Zhukov's position, the greater is the tendency to speculate that the change amounts to a demotion for him.

Western Communist correspondents in Moscow state that a central committee meeting will convene within the next few days, possibly on 28 October, to discuss Zhukov's status.

Zhukov reportedly hurried to a meeting with party leaders immediately after he arrived back in Moscow from his state visit to Yugoslavia and Albania. Khrushchev, Bulganin, and Mikoyan, who are normally very punctual, arrived nearly an hour late at the Iranian embassy, after having had the Iranian ambassador twice change the hour of his reception. It may have been at this party meeting that Zhukov first learned of the decision to replace him as defense minister.

American correspondents, whose attempts to report speculation concerning Zhukov's status were cut off by Soviet censors on the 26th, are now permitted to hint at a possible demotion.

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American service attachés noted an extraordinary number of security and militia personnel and one armed MVD patrol at the Iranian reception on the 26th, and report that a large number of military officers entered and left the Kremlin on the nights of 22, 23, and 24 October.

Policy differences may have figured prominently in the decision to relieve Zhukov of the defense post. General military policy--for example, the question of economic priorities as they affect the Soviet military establishment, and perhaps particularly Khrushchev's policy with regard to the Middle East situation--may have been an area of serious disagreement. There have been confirmed reports of recent differences over long-range economic planning in high echelons of the party and government.

Ambassador Thompson points out that in recent weeks the military press has been carrying a conspicuous number of references to the leading role of the party in military affairs, and he considers it possible that Zhukov has overreached himself in attempting to establish the independence of the military.

The above evidence, while suggestive of Zhukov's demotion, is still not conclusive, and must be weighed against the evidence cited in the CIA intelligence memorandum of 26 October supporting the view that the Kremlin would be hesitant to demote Zhukov on the eve of the 40th anniversary celebration.

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5. AGGRESSIVE EAST GERMAN ACTIONS CHALLENGE STATUS OF WEST BERLIN

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A new, harder East German policy is developing which appears designed to strengthen East Germany's claim to sovereignty and to erode away the quadripartite status of Berlin. The regime, apparently with Soviet backing, has taken a number of steps in recent weeks aimed at forcing Bonn and the Western powers to recognize East German rather than Soviet authority over the territory of the German Democratic Republic. Probably as a consequence of Khrushchev's strong endorsement of the Ulbricht regime last August, the government has recently shown markedly greater assurance, both in its tougher domestic policies and its more aggressive attitude toward West Germany and West Berlin.

Strong actions affecting access to Berlin taken by the regime include: increased controls over interzonal road and rail traffic, including confiscation of parcel post and freight shipments; generally more stringent controls on Berlin intersector traffic in violation of four power agreements; the disruption of plans for a church conference scheduled for both parts of Berlin on 26 and 27 October; and threats to assume control over the Berlin air corridors used by allied aircraft.

The East German government reportedly decided not to go through with a plan to seal the Berlin sector borders for two weeks beginning at dawn on 26 October, because of the disruption of interzonal trade, which is very important to the East German economy.

While most measures to date have affected primarily German interests, the US mission in Berlin considers it likely that Allied interests will be increasingly affected if the trend continues, whether or not the Russians add direct harassments of their own to those of the East German regime.

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6. EAST GERMANY REDUCES ECONOMIC GOALS

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The goals of the East German Five-Year Economic Plan (1956-60) for industrial production have been reduced from a planned increase of 55 percent in output by 1960 to 34 percent, according to a 17

October speech by Party Secretary Walter Ulbricht which has just been released.

Since the inception of the Five-Year Plan in 1956, East German industrial production has fallen behind plan, largely because the goals for investment, labor productivity, and raw materials output were set too high. The revised production goals appear to be feasible, but the internal resources of the East German economy are not adequate for the planned investments, which have been only slightly reduced. The Soviet Union will continue to assist East Germany, which has received a total of \$785,000,000 in credits since 1953.

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7. MAO TSE-TUNG'S VISIT TO MOSCOW

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[Redacted]

Peiping's announcement that Mao Tse-tung will visit Moscow early next month in connection with the Soviet anniversary celebrations on 7 November paves the way for a Communist "summit" conference among Khrushchev, Mao, Tito, and Gomulka, who represent the four principal points of view on relations among "socialist" states.

Now that Mao's presence is assured, Tito and Gomulka are almost certain to be there. Both Tito and Gomulka regard Mao as sympathetic to certain features of their individual positions on "different roads to socialism," and will look to Mao for some support in their contentions with Khrushchev. On the other hand, Khrushchev can count on Mao's support for the central issue of "socialist" solidarity against the West.

Last January and February, Chou En-lai visited Moscow and Warsaw with the aim of preventing further deterioration in Soviet-Polish relations. Since then, Moscow's relations with both Warsaw and Belgrade have improved considerably, in line with Peiping's advice to avoid invective and work out problems quietly and gradually. Mao will encourage the Communist leaders to continue this course.

Mao may follow his visit to Moscow with a tour of the East European satellites, and there have been reports he will also go to Belgrade. [Redacted]

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8. BURMA SET FOR LONG DELAY IN REACHING BORDER ACCORD WITH PEIPING

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Burmese officials appear resigned, in the light of Chief Justice Myint Thein's recent unsuccessful mission to Peiping, to a protracted period of negotiations before a definitive border settlement with Communist China can be achieved.

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The Burmese are deeply disappointed over their failure to nail down a definitive border settlement. In the absence of new Chinese incursions into territory claimed by Burma, however, Rangoon is in a poor position to take drastic steps, such as a renewed press campaign, in an effort to incline China toward early settlement.

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9. SITUATION IN LAOS

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[Redacted]

Laotian Prime Minister Souvanna Phouma's efforts toward a quick settlement with the Pathet Lao hit a snag on 25 October when the council of ministers--the cabinet plus Crown Prince Savang--decided the communiqué proposed by Souvanna and Pathet chief Souphanouvong required major revision to safeguard the government's interests. The council also disavowed the political agreement signed on 22 October by government and Pathet Lao negotiators which had been described by the American ambassador as a "sell-out" to the Communists.

The council's revision of the communiqué tightens loop-holes the Pathets would probably have exploited to evade their commitments regarding restoration of the government's authority in the disputed provinces. It also serves to reduce the effectiveness of the communiqué as a propaganda vehicle in the Pathets' neutrality campaign.

The crown prince believes the revised communiqué will be unacceptable to the Pathets. They may, however, consider that the original draft was so favorable that they have latitude in which to negotiate further. It seems unlikely that they will react to this setback by breaking off negotiations.

In any event, the Pathets can be expected to launch an intense propaganda campaign portraying the United States as the only obstacle to the unification of Laos. In addition, Souvanna may react by threatening to resign, charging that America has frustrated his efforts, and thus raise the prospect of another prolonged government crisis if a settlement is not quickly achieved.

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11. MANAHAN'S CHANCES FOR WINNING PHILIPPINE PRESIDENCY SEEN GROWING

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The American embassy's latest survey of the Philippine political campaign indicates that although President Garcia may hold a lead in the race for the presidency, his lead is small and appears to be diminishing. The presidential candidates of the Liberal and Progressive parties, Jose Yulo and Manuel Manahan, are, in the embassy's judgment, running neck-and-neck. Manahan's popularity, in particular, continues to rise and should this popularity be converted into votes on 12 November, he may run ahead of Yulo and conceivably could win the necessary plurality.

Although Garcia and Yulo are supported by long-established party machines--traditionally the deciding factor in Philippine elections--the embassy believes that voters will exercise more independence of judgment this year than ever before. The increased price of rice and other basic commodities as well as chronic socio-economic pressures are probably playing a major role in electing a "new order" to power. Manahan may also be able to play on the continuing popular desire for a "clean new force" which manifested itself in the 1953 election of the late Ramon Magsaysay.

Liberal party candidate Yulo reportedly has the support of the Roman Catholic hierarchy in the Philippines. Unless this support involves instructions to parish priests, however, the embassy believes the parish-level clergy and popular Catholic action groups will back Manahan.

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12. HEALTH MAY FORCE OUSTER OF TOP SOUTH KOREAN LIBERAL PARTY LEADER

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[REDACTED]

Yi Ki-pung, the leader of the ruling Liberal party in South Korea, may soon be forced to retire from active politics because of his rapidly failing health. Yi has been observed to have great difficulty in walking or even in standing for more than ten minutes at a time. Many of his associates reportedly are urging him to relinquish leadership of the party.

Yi's retirement would almost certainly lead to the fragmentation and possibly the disintegration of the large but poorly disciplined Liberal party. Many party members were recruited by Yi from the opposition Democratic party of Vice President Chang Myon and from independent circles. Subsequent maneuvering by the various factions for political advantage could precipitate political instability which even President Rhee may have difficulty in containing.

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13. EARLY WEST GERMAN-POLISH INFORMAL TRADE
TALKS REPORTED

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Informal trade talks between West German and Polish officials will begin on 29 October in West Berlin,

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Bonn has indicated many times that a "first step" in improving relations with Poland would be the establishment of a West German trade mission in Warsaw. The government has been strongly criticized by both the political opposition and the independent press on the groundsthat its diplomatic break with Yugoslavia creates obstacles to a rapprochement with Poland. An official government periodical recently stated that the break with Belgrade did not mean that Bonn would never establish relations with countries which had recognized East Germany "under different circumstances."

Members of the Polish delegation are emphasizing the nonofficial status of the meeting. In recent weeks, the Polish leaders have insisted that the resumption of full diplomatic relations must accompany any exchange of trade missions.

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14. THE SITUATION IN GUATEMALA

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Constitutional government was tenuously restored to Guatemala late on 26 October, but Communists may benefit from the bitter divisions among anti-Communist political and military forces which were revealed in the violent disturbances last week.

The military junta resigned on 26 October and the congress installed Guillermo Flores Avendano as interim president until a permanent president can be elected and inaugurated. Flores is the constitutional successor to Luis Arturo Gonzalez, the president ousted by the junta on 24 October after two days of rioting over the disputed, and now annulled, presidential election of 20 October. His installation was the result of an agreement between the beleaguered junta and Miguel Ydigoras Fuentes, whose followers had nearly succeeded by mob action in forcing the junta to relinquish power directly to him. A new presidential election is promised for the "near future" and Ydigoras seems confident of winning it. He has been assured that, this time, the election will be really free.

The army, formerly a decisive power in Guatemala, is now weakened by internal factionalism. The 26 October "solution" to the political dilemma probably does not have the support of more than a bare majority of officers,

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Guatemalan Communists are "delighted" with last week's events. They exercise influence in the leftist Revolutionary party (PR) and in various labor and student groups which were active in the mob action. The PR, which has been promised the right to participate in the new election, is confident. Many observers believe it might win, especially if given time to organize.

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